

**REPORT OF THE AUDIT OF THE
BOURBON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BOURBON COUNTY FISCAL COURT

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Bourbon County Fiscal Court for fiscal year ended June 30, 2005. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Bourbon County, Kentucky. In accordance with OMB Circular A-133, we have issued unqualified opinions on the compliance requirements that are applicable to Bourbon County's major federal programs: Community Development Block Grant - Rural Water Extension and Highway Planning and Construction - Duncan Tavern Grant - Phase III.

Financial Condition:

The fiscal court had net assets of \$13,877,344 as of June 30, 2005. The fiscal court had unrestricted net assets of \$2,952,910 in its governmental activities as of June 30, 2005, with total net assets of \$13,848,213. In its enterprise fund, total net cash and cash equivalents were \$29,131 with total net assets of \$29,131. The fiscal court had total debt principal as of June 30, 2005 of \$4,351,136 with \$169,538 due within the next year.

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
BOURBON COUNTY OFFICIALS	3
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	15
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	18
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	22
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	26
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	31
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	35
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	39
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	43
NOTES TO FINANCIAL STATEMENTS.....	45
BUDGETARY COMPARISON SCHEDULES	61
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	64
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	66
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	72
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	79
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	83
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	85
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	89
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	93
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Donnie Foley, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bourbon County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bourbon County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Bourbon County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bourbon County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Donnie Foley, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bourbon County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 25, 2006 on our consideration of Bourbon County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 25, 2006

BOURBON COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Donnie R. Foley	County Judge/Executive
James S. Alexander	Magistrate
Marion Dawson	Magistrate
Barry L. Hay	Magistrate
Dorothy M. Mastin	Magistrate
Donald R. McCarty	Magistrate
George Turley	Magistrate
John N. Smoot	Magistrate

Other Elected Officials:

John J. Brady	County Attorney
Baron Barnes	Jailer
Richard S. Eads	County Clerk
Sherry Rankin	Circuit Court Clerk
Mark L. Matthews	Sheriff
Woodford Wayne Turner	Property Valuation Administrator
Rosemary Kitchen	Coroner

Appointed Personnel:

Mary Allen Hedges	County Treasurer
Mary Allen Hedges	Occupational Tax Collector
Charlotte O. Stone	Finance Officer

THIS PAGE LEFT BLANK INTENTIONALLY



Telephone
859-987-2135
859-255-8310
Fax 859-987-2136

Donnie R. Foley
Bourbon County Judge Executive
Courthouse
Paris, Kentucky 40361

Magistrates
James Alexander
Marion Dawson
Barry Hay
Dorothy Jo Mastin
Donnie McCarty
John Smoot
George Turley

Management's Discussion and Analysis

June 30, 2005

The financial management of Bourbon County, Kentucky offers readers of Bourbon County's financial statements this narrative overview and analysis of the financial activities of Bourbon County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Bourbon County had net assets of \$13,877,344 as of June 30, 2005. The fiscal court had unrestricted net assets of \$2,952,910 in its governmental activities as of June 30, 2005. In its enterprise fund, cash and cash equivalents were \$29,131 with total assets of \$29,131. Total debt principal as of June 30, 2005 was \$4,351,136 with \$169,538 due within one year.
- The government's total net assets increased by \$710,271 from the prior year. This increase is due primarily to the decrease of liabilities due to the pay off of the jail.
- At the close of the current fiscal year, Bourbon County's balance sheet reported a fund balance of \$8,215,164. Of this amount, \$2,932,072 is available for spending at the government's discretion (unreserved fund balance).
- Bourbon County's total indebtedness at the close of fiscal year June 30, 2005 was \$4,351,136, of which \$4,181,598 is long-term debt (due after 1 year) and \$169,538 is short-term debt (to be paid within 1 year). Debt reductions were \$1,678,310 during the year (including the pay off of jail debt in the amount of \$1,165,000).

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Bourbon County's basic financial statements. Bourbon County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Bourbon County's finances, in a manner similar to a private-sector business.

Bourbon County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Government-wide Financial Statements (Continued)

The *Statement of Net Assets* presents information on all of Bourbon County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Bourbon County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Bourbon County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. The County has one business type activity - the operation of a jail canteen.

The government-wide financial statements include not only Bourbon County itself (known as the primary government), but also a legally separate entity, which has a significant operational or financial relationship with the County. Bourbon County has one such entity, the Public Properties Corporation. It is known as a blended component unit.

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Bourbon County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements. All of the funds of Bourbon County can be divided into two broad categories: *governmental funds* and *proprietary funds*.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Bourbon County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Governmental Funds (Continued)

Bourbon County maintains twenty-eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, John Marston Educational Fund, Clifton Gillespie Fund and the Public Properties Corporation Fund, all of which are considered major funds by the County. Local Government Economic Assistance Fund, State Grant Fund, Phase I Fund, Wright House Fund, Health and Welfare Fund, Educational Trust Checking Fund, E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, Robert Meteer Fund, Lucy Anderson Fund, Harrell-Kennedy Fund, Elaine Hinkle Fund, Lou Redmon Fund, Howard Forquer Fund, May Goff Fund, Talbott Clay Fund, Frances Champ Fund, FM Gillespie Fund, Ella Davis Fund and the Bond Proceeds Fund are considered non-major funds and are represented in a combined form.

Bourbon County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following table is a comparison of the county's Statement of Net Assets for 2004 and 2005.

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Assets						
Current and other assets	\$ 9,224,447	\$ 8,215,164	\$ 12,345	\$ 29,131	\$ 9,236,792	\$ 8,244,295
Capital assets	9,861,071	9,984,185			9,861,071	9,984,185
Total Assets	19,085,518	18,199,349	12,345	29,131	19,097,863	18,228,480
Liabilities						
Current and other liabilities	510,790	169,538			510,790	169,538
Long-term liabilities	5,420,000	4,181,598			5,420,000	4,181,598
Total Liabilities	5,930,790	4,351,136			5,930,790	4,351,136
Net Assets						
Invested in capital assets, net of related debt	3,930,281	5,633,049			3,930,281	5,633,049
Restricted	5,281,596	5,262,254			5,281,596	5,262,254
Unrestricted	3,942,851	2,952,910	12,345	29,131	3,955,196	2,982,041
Total Net Assets	\$ 13,154,728	\$ 13,848,213	\$ 12,345	\$ 29,131	\$ 13,167,073	\$ 13,877,344

Bourbon County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Government-wide Financial Analysis (Continued):

	Governmental Activities		Change
	2004	2005	
Revenues:			
General Revenue	\$ 3,185,475	\$ 3,220,639	1%
Charges For Services	332,934	428,871	29%
Operating Grants and Contributions	2,834,342	2,226,069	-21%
Capital Grants and Contributions	1,103,850	421,198	-62%
Total Revenues	<u>7,456,601</u>	<u>6,296,777</u>	<u>-16%</u>
Expenditures			
General Government	1,476,589	1,857,528	26%
Protection to Persons and Property	1,159,475	1,577,370	36%
General Health and Sanitation	426,308	576,238	35%
Social Services	485,505	431,896	-11%
Recreation and Culture	777,282	278,444	-64%
Roads	863,080	389,153	-55%
Interest on Long-Term Debt	345,697	325,184	-6%
Capital Projects	23,130	189,318	718%
Total Expenditures	<u>\$ 5,557,066</u>	<u>\$ 5,625,131</u>	<u>1%</u>

Changes in Net Assets

Governmental Activities. Bourbon County's net assets increased by \$671,646 in fiscal year 2005. Key elements of this are as follows:

- Current assets and cash decreased by \$1,009,283.
- Investment in capital assets, net of related debt increased \$1,702,768.
- Current and long-term liabilities decreased by \$1,579,654, primarily due to the pay off of jail debt.
- Revenues were \$6,296,777 as reflected in the Statement of Activities.
- Expenditures totaled \$5,625,131 as reflected in the Statement of Activities.

Business-type Activities. Bourbon County's net assets increased by \$16,786 in fiscal year 2005. Key elements of this are as follows:

- Current assets and cash increased by \$16,786.

Bourbon County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Financial Analysis of the County's Funds

As noted earlier, Bourbon County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Bourbon County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2005 fiscal year, the combined ending fund balance of County governmental funds was \$8,215,164. Approximately 36% (\$2,932,072) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$5,283,092) is reserved to indicate that it is not available for new spending because it is committed.

The County has 6 major governmental funds. These are 1) General Fund; 2) Road Fund; 3) Jail Fund; 4) John Marston Educational Fund; 5) Clifton Gillespie Fund; and the 6) Public Properties Corporation Fund. There are 22 non-major funds. They are the Local Government Economic Assistance Fund, State Grant Fund, Phase I Fund, Wright House Fund, Health and Welfare Fund, Educational Trust Checking Fund, E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, Robert Meteer Fund, Lucy Anderson Fund, Harrell-Kennedy Fund, Elaine Hinkle Fund, Lou Redmon Fund, Howard Forquer Fund, May Goff Fund, Talbott Clay Fund, Frances Champ Fund, FM Gillespie Fund, Ella Davis Fund and the Bond Proceeds Fund.

1. The General Fund is the chief operating fund of Bourbon County. At the end of the June 30, 2005 fiscal year, unreserved fund balance of the General Fund was \$1,535,857, while total fund balance was \$1,538,509. The county received \$1,615,666 in Occupational and Net Profit tax revenues. This accounts for approximately 43% of the general fund revenue (excluding all grant and KARP receipts). Likewise, the \$843,239 real property taxes received accounts for approximately 22% of the county's general fund revenues. All other taxes totaling \$335,124 accounts for 9%. The importance of the occupation taxes collected is reflected in these statistics.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$357,225 in fund balance at June 30, 2005. The fund balance at the end of the previous year was \$338,060. The fiscal year 2005 expenditures for road projects were \$748,339. This is a 56% decrease from the previous year expenditures of \$1,336,142 due to the completion of the resurfacing project on Cane Ridge Road (KY 537).
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a fund balance at June 30, 2005 of \$6,383, which is a substantial decrease from the previous year balance of \$1,392,019. This decrease is due to the pay off the jail debt seven years early, which has saved the county \$335,475 in interest. Receipts of \$115,000 per year for ten years from a jail construction grant have been invested and the interest accrued to allow for the early pay off. Housing out-of-county prisoners brought in receipts of \$210,675. The General Fund must supplement the jail budget each year—for fiscal year 2005, \$463,032 was transferred to the jail. The housing of too many of our own prisoners continues to drain the general fund coffers.

**Bourbon County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Financial Analysis of the County's Funds (Continued)

4. The John Marston Educational Fund had an ending balance of \$1,375,812 as of June 30, 2005. The John Marston Educational Fund is a testamentary trust established under the will of John Marston. All interest income is to be paid semi-annually to the Bourbon County Treasurer for the use and benefit of young men and women of Bourbon County in achieving their educational goals.
5. The Clifton Gillespie Fund was established by the 1943 will of Bourbon County resident, Clifton Gillespie. It named the Bourbon County Fiscal Court as trustee to assist needy residents of Bourbon County with hospital expenses. On June 30, 2005, its fund balance was \$1,277,990. Interest income is issued semi-annually to provide means of payment toward indigent medical bills.
6. The Public Properties Corporation Fund had an ending fund balance of \$0 at the end of fiscal year 2005. Its activities were for the debt reduction of the courthouse renovation project. This debt was retired February 2005.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

Bourbon County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net assets of \$29,131 as of June 30, 2005, which was comprised totally of cash.

General Fund Budgetary Highlights

The County's original budget was amended during the fiscal year increasing the operating budget by \$9,732.

Capital Assets and Debt Administration

Capital Assets. Bourbon County's investment in capital assets for its government and business type activities as of June 30, 2005, amounts to \$9,984,185 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions. The County has elected to report infrastructure assets per GASB 34 provisions.

Additional information on the County's capital assets can be found in Note 4 of this report.

Bourbon County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Capital Assets and Debt Administration (Continued)

Bourbon County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Land and Land Improvements	\$ 856,877	\$ 856,877	\$ 0	\$ 0	\$ 856,877	\$ 856,877
Buildings	6,918,356	6,831,324			6,918,356	6,831,324
Other Equipment	363,052	504,097			363,052	504,097
Vehicles and Equipment	453,258	388,635			453,258	388,635
Infrastructure	1,427,301	1,403,252			1,427,301	1,403,252
Total Net Capital Assets	\$ 10,018,844	\$ 9,984,185	\$ 0	\$ 0	\$ 10,018,844	\$ 9,984,185

Long-Term Debt. At the end of the 2005 fiscal year, Bourbon County had total long-term debt outstanding of \$4,351,136. The amount of this debt due within the next year is \$169,538 and \$4,181,598 is due in subsequent years. This debt is for the AOC – Courthouse Annex and the Accutran Building.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2006 fiscal year budget:

- As jail expenses continue to escalate due to housing too many of our own county inmates and rising health care costs for inmates, the general fund will continue to see large transfers of funds to the jail fund for its day to day operation.
- Problems with the dome and roof at our historical courthouse are major issues that need to be addressed. A bond project will need to be issued in order to make these repairs estimated between \$500,000 to well over \$1,000,000.

Requests For Information

This financial report is designed to provide a general overview of Bourbon County's finances for all those with an interest in the county government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Bourbon County Treasurer, 301 Main Street, Room 210, Paris, KY 40361.

THIS PAGE LEFT BLANK INTENTIONALLY

BOURBON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

BOURBON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,952,910	\$ 29,131	\$ 2,982,041
Cash and Cash Equivalents -			
Non-Expendable Trust	508,669		508,669
Bonds - Government	1,535,948		1,535,948
Bonds - Corporate	255,269		255,269
Bonds - Municipal	55,000		55,000
Mutual Funds - Fixed	324,053		324,053
Mutual Funds - Equity	1,265,841		1,265,841
Mutual Funds - Taxable	194,077		194,077
Common Stock	1,123,397		1,123,397
Total Current Assets	8,215,164	29,131	8,244,295
Noncurrent Assets:			
Capital Assets - Net of Accumulated			
Depreciation			
Land and Land Improvements	856,877		856,877
Buildings	6,831,324		6,831,324
Other Equipment	504,097		504,097
Vehicles and Equipment	388,635		388,635
Infrastructure Assets - Net			
of Depreciation	1,403,252		1,403,252
Total Noncurrent Assets	9,984,185		9,984,185
Total Assets	18,199,349	29,131	18,228,480
LIABILITIES			
Current Liabilities:			
Revenue Bonds	165,000		165,000
Financing Obligations	4,538		4,538
Total Current Liabilities	169,538		169,538
Noncurrent Liabilities:			
Revenue Bonds	4,090,000		4,090,000
Financing Obligations	91,598		91,598
Total Noncurrent Liabilities	4,181,598		4,181,598
Total Liabilities	4,351,136		4,351,136
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	5,633,049		5,633,049
Restricted For:			
Permanent Fund	5,262,254		5,262,254
Unrestricted	2,952,910	29,131	2,982,041
Total Net Assets	\$ 13,848,213	\$ 29,131	\$ 13,877,344

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BOURBON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

BOURBON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

		Program Revenues Received		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,857,528	\$ 75,809	\$ 971,401	\$
Protection to Persons and Property	1,577,370	322,993	411,420	
General Health and Sanitation	576,238	9,030		421,198
Social Services	431,896			
Recreation and Culture	278,444	21,039		
Roads	389,153		843,248	
Interest on Long-Term Debt	325,184			
Capital Projects	189,318			
Total Governmental Activities	5,625,131	428,871	2,226,069	421,198
Business-type Activities:				
Jail Canteen	104,793	121,579		
Total Business-type Activities	104,793	121,579		
Total Primary Government	\$ 5,729,924	\$ 550,450	\$ 2,226,069	\$ 421,198

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (810,318)	\$	\$ (810,318)
(842,957)		(842,957)
(146,010)		(146,010)
(431,896)		(431,896)
(257,405)		(257,405)
454,095		454,095
(325,184)		(325,184)
(189,318)		(189,318)
<u>(2,548,993)</u>		<u>(2,548,993)</u>
	16,786	16,786
	<u>16,786</u>	<u>16,786</u>
<u>(2,548,993)</u>	<u>16,786</u>	<u>(2,532,207)</u>
843,239		843,239
61,272		61,272
194,726		194,726
1,694,792		1,694,792
1,065		1,065
138,148		138,148
<u>287,397</u>		<u>287,397</u>
<u>3,220,639</u>		<u>3,220,639</u>
671,646	16,786	688,432
<u>13,176,567</u>	<u>12,345</u>	<u>13,188,912</u>
<u>\$ 13,848,213</u>	<u>\$ 29,131</u>	<u>\$ 13,877,344</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BOURBON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

BOURBON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Jail Fund	John Marston Educational Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,538,509	\$ 357,225	\$ 6,383	\$
Cash and Cash Equivalents - Non-Expendable Trust				89,469
Bonds - Government				280,000
Bonds - Corporate				175,449
Bonds - Municipal				55,000
Mutual Funds - Fixed				60,000
Mutual Funds - Equity				202,773
Mutual Funds - Taxable Common Stock				513,121
Total Assets	<u>\$ 1,538,509</u>	<u>\$ 357,225</u>	<u>\$ 6,383</u>	<u>\$ 1,375,812</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 2,652	\$ 11,569	\$ 6,383	\$
Permanent Fund				1,375,812
Unreserved:				
General Fund	1,535,857			
Special Revenue Funds		345,656		
Total Fund Balances	<u>\$ 1,538,509</u>	<u>\$ 357,225</u>	<u>\$ 6,383</u>	<u>\$ 1,375,812</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

Clifton Gillespie Fund	Public Properties Corporation Fund	Non- Major Governmental Funds	Total Governmental Funds
\$	\$	\$ 1,050,793	\$ 2,952,910
51,611		367,589	508,669
566,283		689,665	1,535,948
49,820		30,000	255,269
			55,000
		264,053	324,053
		1,063,068	1,265,841
		194,077	194,077
610,276			1,123,397
<u>\$ 1,277,990</u>	<u>\$ 0</u>	<u>\$ 3,659,245</u>	<u>\$ 8,215,164</u>

\$	\$	\$ 234	\$ 20,838
1,277,990		2,608,452	5,262,254
			1,535,857
		1,050,559	1,396,215
<u>\$ 1,277,990</u>	<u>\$ 0</u>	<u>\$ 3,659,245</u>	<u>\$ 8,215,164</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 8,215,164
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	12,263,194
Depreciation	(2,279,009)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(96,136)
Bonded Debt	(4,255,000)
Net Assets Of Governmental Activities	<u>\$ 13,848,213</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BOURBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

BOURBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	General Fund	Road Fund	Jail Fund	John Marston Educational Fund
REVENUES				
Taxes	\$ 2,886,488	\$	\$	\$
Excess Fees	1,065			
Licenses and Permits	60,555			
Intergovernmental	694,963	759,187	451,213	
Charges for Services	16,380		31,211	
Miscellaneous	71,851	2,068	8,989	
Interest	34,641	6,249	48,139	55,749
Total Revenues	<u>3,765,943</u>	<u>767,504</u>	<u>539,552</u>	<u>55,749</u>
EXPENDITURES				
General Government	825,000			
Protection to Persons and Property	720,380		838,465	
General Health and Sanitation	140,180	13,181		
Social Services	206,594			8,019
Recreation and Culture	291,292			
Roads		484,645		
Debt Service	10,486		1,381,588	
Capital Projects		129,318		
Administration	594,712	121,195	168,167	
Total Expenditures	<u>2,788,644</u>	<u>748,339</u>	<u>2,388,220</u>	<u>8,019</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>977,299</u>	<u>19,165</u>	<u>(1,848,668)</u>	<u>47,730</u>
Other Financing Sources (Uses)				
Transfers to Bond Proceeds for AOC				
Transfers From AOC				
Transfer to Fiscal Court from Trust Funds				(44,743)
Transfers From Trust Principal Accounts				
Transfers From Other Funds			463,032	
Transfers To Other Funds	(593,708)			
Total Other Financing Sources (Uses)	<u>(593,708)</u>		<u>463,032</u>	<u>(44,743)</u>
Net Change in Fund Balances	383,591	19,165	(1,385,636)	2,987
Fund Balances - Beginning	1,154,918	338,060	1,392,019	1,372,825
Fund Balances - Ending	<u>\$ 1,538,509</u>	<u>\$ 357,225</u>	<u>\$ 6,383</u>	<u>\$ 1,375,812</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Clifton Gillespie Fund	Public Properties Corporation Fund	Non- Major Governmental Funds	Total Governmental Funds
\$	\$	\$	\$ 2,886,488
			1,065
			60,555
		1,013,609	2,918,972
			47,591
		11,801	94,709
69,091	5	107,920	321,794
69,091	5	1,133,330	6,331,174
		28,669	853,669
		34,459	1,593,304
		421,198	574,559
5,655		227,596	447,864
			291,292
			484,645
	131,376	381,574	1,905,024
		60,000	189,318
		479,855	1,363,929
5,655	131,376	1,633,351	7,703,604
63,436	(131,371)	(500,021)	(1,372,430)
	(128,188)		(128,188)
	128,188	381,574	509,762
(46,960)		(69,712)	(161,415)
		142,988	142,988
	130,676		593,708
			(593,708)
(46,960)	130,676	454,850	363,147
16,476	(695)	(45,171)	(1,009,283)
1,261,514	695	3,704,416	9,224,447
\$ 1,277,990	\$ 0	\$ 3,659,245	\$ 8,215,164

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BOURBON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

BOURBON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ (1,009,283)
--	----------------

Amounts Reported for Governmental Activities in the Statement of Activities

Are Different Because:

Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	428,199
Depreciation Expense	(318,687)
Capital Outlay - Retirement	(9,360)
Depreciation Expense - Retirement	1,123

Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources.

Financing Obligations Principal Payments	1,398,310
Bond Principal Payments	280,000
Financing Obligations - Refinanced	<u>(98,656)</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 671,646</u></u>
---	--------------------------

THIS PAGE LEFT BLANK INTENTIONALLY

BOURBON COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

BOURBON COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	Business-Type Activity
	Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 29,131
Total Assets	<u>29,131</u>
Net Assets	
Unrestricted	29,131
Total Net Assets	<u><u>\$ 29,131</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BOURBON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

BOURBON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activity
	Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 24,845
Total Operating Revenues	<u>24,845</u>
Operating Expenses	
Cost of Sales	58,087
Educational and Recreational	921
Miscellaneous	<u>4,427</u>
Total Operating Expenses	<u>63,435</u>
Operating (Loss)	<u>(38,590)</u>
Nonoperating Revenues (Expenses)	
Amounts Held In Custody For Inmates	96,734
Inmate Refunds	<u>(41,358)</u>
Total Nonoperating Revenues (Expenses)	<u>55,376</u>
Change In Net Assets	16,786
Total Net Assets - Beginning	<u>12,345</u>
Total Net Assets - Ending	<u><u>\$ 29,131</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BOURBON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

BOURBON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activity Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 24,845
Cost of Sales	(58,087)
Educational and Recreational	(921)
Miscellaneous	(4,427)
Net Cash (Used) By Operating Activities	(38,590)
Cash Flows From Noncapital Financing Activities	
Amounts Held In Custody For Inmates	96,734
Inmate Refunds on Accounts	(41,358)
Net Cash Provided By Noncapital Financing Activities	55,376
Net Increase in Cash and Cash Equivalents	16,786
Cash and Cash Equivalents - July 1, 2004	12,345
Cash and Cash Equivalents - June 30, 2005	\$ 29,131
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating (Loss)	\$ (38,590)
Net Cash Used By Operating Activities	\$ (38,590)

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	45
NOTE 2.	DEPOSITS AND INVESTMENTS.....	51
NOTE 3.	LEASE PARTICIPATION AGREEMENT	53
NOTE 4.	CAPITAL ASSETS	54
NOTE 5.	SHORT-TERM DEBT	55
NOTE 6.	LONG-TERM DEBT	55
NOTE 7.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS	56
NOTE 8.	EMPLOYEE RETIREMENT SYSTEM	57
NOTE 9.	DEFERRED COMPENSATION.....	57
NOTE 10.	INSURANCE.....	57
NOTE 11.	SUBSEQUENT EVENT	58
NOTE 12.	PRIOR PERIOD ADJUSTMENT	58

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets among other items are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Bourbon County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Bourbon County Public Properties Corporation

The Bourbon County Public Properties Corporation cannot be sued in its own name without recourse to the Bourbon County Fiscal Court, which appoints a voting majority consisting of fiscal court members and the County Attorney. The fiscal court is able to impose its will on the Corporation, as the Corporation is created solely for the benefit of the fiscal court per KRS 58.180 to act as an agent in the acquisition and financing of any public project. The fiscal court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the fiscal court. This component unit is blended within the financial statements of the county.

C. Bourbon County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Bourbon County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Bourbon County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

John Marston Educational Fund - This fund was established by the will and codicil of John Marston. The will imposed that the funds be held in perpetuity, which means that the original principal amount remain intact. The primary purpose of this fund is to account for income generated by the principal. The income less applicable administrative costs is to be spent for educational scholarships. The county has a committee, appointed by the County Judge/Executive, that decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Clifton Gillespie Fund - This fund was established by the will and codicil of Clifton Gillespie. The will imposed that the funds be held in perpetuity, which means that the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance with hospitals to indigent residents of Bourbon County. The County Judge/Executive decides who shall receive assistance from this fund by applications submitted. Each eligible person is limited to \$2,000.

Public Properties Corporation Fund - The Public Properties Corporation Fund accounts for the activities of the Public Properties Corporation, a blended component unit of the county. The Public Properties Corporation issued debt to complete renovations on the courthouse. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grant Fund, Wright House Fund, Phase I Fund, Health and Welfare Fund, Educational Trust Checking Fund, E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, Robert Meter Fund, Lucy Anderson Fund, Harrell-Kennedy Fund, Elaine Hinkle Fund, Lou Redmon Fund, Howard Forquer Fund, May Goff Fund, Talbott Clay Fund, Frances Champ Fund, FM Gillespie Fund, Ella Davis Fund and Bond Proceeds Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1, following the assessment and subject to lien and sale February 1, following the delinquency date.

Proprietary Funds

Proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to inmates for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, non-depreciable land improvements, depreciable land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 2,500	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

J. Related Organization and Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Judy Water Association is considered a related organization of Bourbon County Fiscal Court.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Paris-Bourbon County Economic Development Authority is considered a joint venture of the Bourbon County Fiscal Court.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 2. Deposits and Investments

A. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of June 30, 2005, the County had the following investments:

Cash and Investments by Type

I. Cash	Cost					
	< 1 Year	1-5 Years	6-10 Years	11-15 Years	16-20 Years	> 20 Years
Cash						
Money Market						
Total Cash						
II. Investments	Cost					
	< 1 Year	1-5 Years	6-10 Years	11-15 Years	16-20 Years	> 20 Years
Debt Securities:						
Fixed Income Investments:						
Corporate Bonds	146,274	78,995	30,000			
Government Bonds		1,271,467	196,754	74,121	14,808	83,298
Other Bonds		274,553				
Certificates of Deposit		30,000				
Total:	146,274	1,655,015	226,754	74,121	14,808	83,298
Other Investments:						
Common Stock						
Mutual Funds						
Total:						
Total Investments						

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Interest Rate Risk. The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

Credit Risk. KRS 66.480 limits the County's investments in the following:

- Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government.
- Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity.
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency.
- Bankers' acceptances for bank's rate in one of the three highest categories by a nationally recognized rating agency.
- Commercial paper rated in the highest category by a nationally recognized agency.
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency.
- Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments.

Also, the County is limited to investing no more than 20% in any one of the preceding investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, certificates of deposit are not subject to investment credit risk. See the chart below for credit ratings for each individual investment type.

Investments and Credit Ratings

	AAA	AA	B	Unrated	Cost
Fixed Income Investments:					
Corporate Bonds		\$ 255,269			\$ 255,269
Government Bonds	\$ 1,640,448				1,640,448
Other Bonds	274,553				274,553
Certificates of Deposit				\$ 30,000	30,000
Common Stock			\$ 1,123,397		1,123,397
Mutual Funds				1,459,918	1,459,918
Total Investments	\$ 1,915,001	\$ 255,269	\$ 1,123,397	\$ 1,489,918	\$ 4,783,585

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 2. Deposits and Investments (Continued)

C. Investments (Continued)

Concentration of Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. See the chart below for investments that exceed five percent or more of the total investments for the County.

Concentration of Credit Risk:	Cost	Concentration %
Fixed Income Investments:		
Corporate Bonds	\$ 255,269	5%
Government Bonds	1,640,448	34%
Other Bonds	274,553	6%
Certificates of Deposit	30,000	1%
Common Stock	1,123,397	23%
Mutual Funds	1,459,918	31%
Total:	\$ 4,783,585	100%

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2005, the County's investments were not exposed to custodial credit risk.

Note 3. Lease Participation Agreement

During the fiscal year ended June 30, 1992, the Bourbon County Fiscal Court entered into a twenty year, \$2,300,000 lease participation agreement with GMB Financial Group, Inc. for the construction of a detention center. As specified by terms of the lease, principal payments are due annually on January 1, and interest payments are due semiannually on July 1 and January 1, respectively. Principal and interest payments were made accordingly during fiscal year 2005. On January 3, 2005, a payment of \$1,165,000 was made for payoff of the above lease participation agreement. As of June 30, 2005, there is no remaining balance to be reported.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 856,877	\$	\$	\$ 856,877
Total Capital Assets Not Being Depreciated	856,877			856,877
Capital Assets, Being Depreciated:				
Buildings	7,820,535	30,000	(9,360)	7,841,175
Other Equipment	695,571	199,081		894,652
Vehicles and Equipment	1,112,038	9,800		1,121,838
Infrastructure	1,359,334	189,318		1,548,652
Total Capital Assets Being Depreciated	10,987,478	428,199	(9,360)	11,406,317
Less Accumulated Depreciation For:				
Buildings	(902,179)	(108,795)	1,123	(1,009,851)
Other Equipment	(332,519)	(58,036)		(390,555)
Vehicles and Equipment	(658,780)	(74,423)		(733,203)
Infrastructure	(67,967)	(77,433)		(145,400)
Total Accumulated Depreciation	(1,961,445)	(318,687)	1,123	(2,279,009)
Total Capital Assets, Being Depreciated, Net	9,026,033	109,512	(8,237)	9,127,308
Governmental Activities Capital Assets, Net	<u>\$ 9,882,910</u>	<u>\$ 109,512</u>	<u>\$ (8,237)</u>	<u>\$ 9,984,185</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 40,935
Protection to Persons and Property	105,184
General Health and Sanitation	1,679
Recreation and Culture	8,866
Roads, Including Depreciation of General Infrastructure Assets	<u>162,023</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 318,687</u>

The county has elected not to report infrastructure assets retroactively; therefore, only infrastructure costs incurred since implementation of GASB 34 in fiscal year 2004 to present are reflected as a capital asset. Future infrastructure asset expenditures will be capitalized and expensed according to the capitalization policy adopted by the county.

The beginning balance of net assets has been adjusted by \$21,831. This is discussed further in Note 12 to the financial statements.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Short-term Debt

In July 2004, Bourbon County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,900,300, with principal being due in January 2005. While the county did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$11,680.

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Kentucky Advance Revenue Program	\$ 0	\$ 1,900,300	\$1,900,300	\$ 0
Governmental Activities				
Short-term Liabilities	\$ 0	\$ 1,900,300	\$ 1,900,300	\$ 0

Note 6. Long-term Debt

- A. During fiscal year ended June 30, 1998, the Bourbon County Public Properties Corporation entered into a promissory term note agreement with Community Ventures Corporation for the purchase and renovation of a manufacturing facility. The Public Properties Corporation was obligated to pay \$131,500 in principal payments over seven years, beginning in 1997 and ending in 2004. On November 15, 2004, the Public Properties Corporation refinanced this promissory term note, with an obligation to pay \$98,656 in principal payments over sixty (60) months, beginning December 15, 2004, with a balloon payment scheduled to be made at the end of the note. As of June 30, 2005, the outstanding principal balance of this note was \$96,136.

Fiscal Year Ended June 30,	Principal	Interest
2006	\$ 4,538	\$ 5,880
2007	4,830	5,588
2008	5,141	5,277
2009	5,472	4,946
2010	76,155	1,959
Totals	\$ 96,136	\$ 23,650

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt (Continued)

- B. On May 5, 1995, the Bourbon County Public Properties Corporation issued bonds, Series 1995, in the amount of \$1,000,000, for the purpose of paying courthouse renovation costs. Principal payments are made annually on February 1, and interest on the bonds is payable semiannually February 1 and August 1. To aid in debt relief, the Administrative Office of the Courts makes a biannual payment in the amount of \$20,120 directly to the Paying Agent. The County is liable for the remaining difference. This debt was paid off during the fiscal year. As of June 30, 2005, there was no ending balance to be reported.
- C. On August 1, 2000, the Bourbon County Public Properties Corporation issued bonds, Series 2000, in the amount of \$4,075,000, for the purpose of constructing a circuit and district courts facility. Principal payments are made annually on February 1, and interest on the bonds is payable on February 1 and August 1. As of June 30, 2005, the outstanding principal balance was \$4,255,000.

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 165,000	\$ 219,018
2007	175,000	210,974
2008	180,000	202,442
2009	190,000	193,442
2010	200,000	183,942
2011-2015	1,160,000	758,513
2016-2020	1,500,000	423,938
2021-2022	685,000	53,813
Totals	<u>\$ 4,255,000</u>	<u>\$ 2,246,082</u>

D. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 4,535,000	\$	\$ (280,000)	\$ 4,255,000	\$ 165,000
Financing Obligations	<u>1,395,790</u>	<u>98,656</u>	<u>(1,398,310)</u>	<u>96,136</u>	<u>4,538</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 5,930,790</u>	<u>\$ 98,656</u>	<u>\$ (1,678,310)</u>	<u>\$ 4,351,136</u>	<u>\$ 169,538</u>

Note 7. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$92,236 in interest on financing obligations and \$232,948 in interest on bonds and notes.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 8. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124 or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

The Bourbon County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report, or by telephone at 502-573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2005, Bourbon County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 11. Subsequent Event

During the fiscal year 2003 audit, the county informed the auditors of a situation involving an investigation by the Commonwealth of Kentucky's Office of the Attorney General. They were investigating the fact that three employees of the county, which work at the fire department, had allegedly falsified time cards in order to receive increased compensation. The county informed the auditors that one employee had pled guilty and the two remaining employees were later found guilty. One employee has paid restitution in full of \$4,707. One employee is currently serving time in federal prison while the other employee has appealed the decision.

Note 12. Prior Period Adjustment

The Governmental Net Assets beginning balance of \$13,176,567 shown on the Statement of Activities is \$21,839 more than the Governmental Net Assets ending balance of \$13,154,728 shown in the prior year audit report. The difference is due to adjustments that were made to the beginning balance of capital assets based on information received during the current year audit.

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,570,650	\$ 2,570,650	\$ 2,886,488	\$ 315,838
Excess Fees	43,433	43,433	1,065	(42,368)
Licenses and Permits	34,800	34,800	60,555	25,755
Intergovernmental Revenue	1,647,504	1,653,504	694,962	(958,542)
Charges for Services	15,000	15,000	16,380	1,380
Miscellaneous	122,103	125,835	71,850	(53,985)
Interest	18,687	18,687	55,393	36,706
Total Revenues	<u>4,452,177</u>	<u>4,461,909</u>	<u>3,786,693</u>	<u>(675,216)</u>
EXPENDITURES				
General Government	1,786,889	1,795,389	825,000	970,389
Protection to Persons and Property	806,596	806,596	720,380	86,216
General Health and Sanitation	378,545	378,545	140,180	238,365
Social Services	331,713	331,713	206,594	125,119
Recreation and Culture	508,603	508,603	291,291	217,312
Debt Service	2,053,065	2,054,297	2,062,214	(7,917)
Administration	866,918	866,918	594,712	272,206
Total Expenditures	<u>6,732,329</u>	<u>6,742,061</u>	<u>4,840,371</u>	<u>1,901,690</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,280,152)</u>	<u>(2,280,152)</u>	<u>(1,053,678)</u>	<u>1,226,474</u>
OTHER FINANCING SOURCES (USES)				
Kentucky Advance Revenue Program	1,900,300	1,900,300	1,900,300	
Transfers To Other Funds	(620,148)	(620,148)	(457,294)	162,854
Total Other Financing Sources (Uses)	<u>1,280,152</u>	<u>1,280,152</u>	<u>1,443,006</u>	<u>162,854</u>
Net Changes in Fund Balance	(1,000,000)	(1,000,000)	389,328	1,389,328
Fund Balance - Beginning	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,154,918</u>	<u>154,918</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,544,246</u>	<u>\$ 1,544,246</u>

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 759,448	\$ 759,448	\$ 759,187	\$ (261)
Miscellaneous	500	500	2,068	1,568
Interest	3,000	3,000	6,249	3,249
Total Revenues	<u>762,948</u>	<u>762,948</u>	<u>767,504</u>	<u>4,556</u>
EXPENDITURES				
General Health and Sanitation	17,865	17,865	13,181	4,684
Roads	713,164	713,164	484,645	228,519
Capital Projects	100,000	100,000	129,318	(29,318)
Administration	231,919	231,919	121,195	110,724
Total Expenditures	<u>1,062,948</u>	<u>1,062,948</u>	<u>748,339</u>	<u>314,609</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(300,000)</u>	<u>(300,000)</u>	<u>19,165</u>	<u>319,165</u>
Net Changes in Fund Balance	(300,000)	(300,000)	19,165	319,165
Fund Balance - Beginning	<u>300,000</u>	<u>300,000</u>	<u>338,060</u>	<u>38,060</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 357,225</u>	<u>\$ 357,225</u>

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 321,574	\$ 321,574	\$ 451,213	\$ 129,639
Charges for Services	32,300	32,300	31,211	(1,089)
Miscellaneous	2,800	2,800	8,989	6,189
Interest	45,752	45,752	48,139	2,387
Total Revenues	402,426	402,426	539,552	137,126
EXPENDITURES				
Protection to Persons and Property	822,052	822,052	838,465	(16,413)
Debt Service	1,381,588	1,381,588	1,381,588	
Administration	210,187	210,187	168,167	42,020
Total Expenditures	2,413,827	2,413,827	2,388,220	25,607
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,011,401)	(2,011,401)	(1,848,668)	162,733
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	620,148	620,148	457,295	(162,853)
Total Other Financing Sources (Uses)	620,148	620,148	457,295	(162,853)
Net Changes in Fund Balance	(1,391,253)	(1,391,253)	(1,391,373)	(120)
Fund Balance - Beginning	1,391,253	1,391,253	1,392,019	766
Fund Balance - Ending	\$ 0	\$ 0	\$ 646	\$ 646

BOURBON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation Of Actual Operating Revenues And Expenditures To Required Supplementary Information

Actual operating revenues of the General Fund reflected on the Statement of Revenues, Expenditures and Changes in Fund Balances is \$20,750 less than on the General Fund Budgetary Comparison Schedule in the Required Supplementary Information. This is due to Kentucky Advance Revenue Program (KARP) interest being removed.

Actual operating expenditures of the General Fund reflected in the Statement of Revenues, Expenditures and Changes in Fund Balances is \$2,051,727 less than on the General Fund Budgetary Comparison Schedule in the Required Supplementary Information. This is due KARP principal and interest payments being removed along with debt service principal and interest payments for the Public Properties Corporation being reclassified to transfers out.

Total other financing sources (uses) of the General Fund reflected in the Statement of Revenues, Expenditures and Changes in Fund Balances is \$2,036,714 less than that on the General Fund Budgetary Comparison Schedule in the Required Supplementary Information. This is the net result of the removal of KARP principal of \$1,900,300, along with the inclusion of transfers out in the amount of \$5,737 for the Jail Fund, and \$130,677 for the Public Properties Corporation.

Total other financing sources (uses) of the Jail Fund reflected in the Statement of Revenues, Expenditures and Changes in Fund Balances is \$5,737 more than that on the Jail Fund Budgetary Comparison Schedule in the Required Supplementary Information. This is the result of the inclusion of transfers in for this amount.

**BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	Local Government Economic Assistance Fund	State Grant Fund	Wright House Fund	Phase I Fund	Health and Welfare Fund
ASSETS					
Cash and Cash Equivalents	\$ 101,806	\$	\$ 4,691	\$ 219,934	\$ 14,989
Cash and Cash Equivalents - NonExpendable Trust					
Bonds - Government					
Bonds - Corporate					
Mutual Funds - Fixed					
Mutual Funds - Equity					
Mutual Funds - Taxable					
Total Assets	<u><u>\$ 101,806</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 4,691</u></u>	<u><u>\$ 219,934</u></u>	<u><u>\$ 14,989</u></u>
FUND BALANCES					
Reserved:					
Encumbrances	\$ 234	\$	\$	\$	\$
Permanent Funds					
Unreserved:					
Special Revenue Funds	<u>101,572</u>		<u>4,691</u>	<u>219,934</u>	<u>14,989</u>
Total Fund Balances	<u><u>\$ 101,806</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 4,691</u></u>	<u><u>\$ 219,934</u></u>	<u><u>\$ 14,989</u></u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2005
(Continued)

Educational Trust Checking Fund	E.M. Costello Fund	Garth Fund	Thomas Costello Fund	Hamilton Fund	Robert Meteer Fund	Lucy Anderson Fund
\$ 405,337	\$	\$	\$	\$	\$	\$
	1,231	6,042	148	360	87,698	30,842
	39,804	116,604	5,399	10,795	211,196	
					25,000	
						129,500
					376,469	120,000
						129,035
<u>\$ 405,337</u>	<u>\$ 41,035</u>	<u>\$ 122,646</u>	<u>\$ 5,547</u>	<u>\$ 11,155</u>	<u>\$ 700,363</u>	<u>\$ 409,377</u>
\$	\$	\$	\$	\$	\$	\$
	41,035	122,646	5,547	11,155	700,363	409,377
405,337						
<u>\$ 405,337</u>	<u>\$ 41,035</u>	<u>\$ 122,646</u>	<u>\$ 5,547</u>	<u>\$ 11,155</u>	<u>\$ 700,363</u>	<u>\$ 409,377</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2005
(Continued)

	Harrell- Kennedy Fund	Elaine Hinkle Fund	Lou Redmon Fund	Howard Forquer Fund	May Goff Fund
ASSETS					
Cash and Cash Equivalents	\$	\$	\$	\$	\$
Cash and Cash Equivalents - NonExpendable Trust	902	640	1,563	73,976	16,697
Bonds - Government				205,719	
Bonds - Corporate				5,000	
Mutual Funds - Fixed	17,306	13,078	12,169		9,000
Mutual Funds - Equity	15,134	10,919	17,169	280,538	35,367
Mutual Funds - Taxable			3,104		
Total Assets	<u>\$ 33,342</u>	<u>\$ 24,637</u>	<u>\$ 34,005</u>	<u>\$ 565,233</u>	<u>\$ 61,064</u>
FUND BALANCES					
Reserved:					
Encumbrances	\$	\$	\$	\$	\$
Permanent Funds	33,342	24,637	34,005	565,233	61,064
Unreserved:					
Special Revenue Funds					
Total Fund Balances	<u>\$ 33,342</u>	<u>\$ 24,637</u>	<u>\$ 34,005</u>	<u>\$ 565,233</u>	<u>\$ 61,064</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2005
(Continued)

Talbott Clay Fund	Frances Champ Fund	FM Gillespie Fund	Ella Davis Fund	Bond Proceeds Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$	\$ 304,036	\$ 1,050,793
82,321	4,158	40,157	20,854		367,589
39,050	49,473		11,625		689,665
					30,000
20,000		63,000			264,053
90,000		85,718	31,754		1,063,068
61,938					194,077
<u>\$ 293,309</u>	<u>\$ 53,631</u>	<u>\$ 188,875</u>	<u>\$ 64,233</u>	<u>\$ 304,036</u>	<u>\$ 3,659,245</u>
\$	\$	\$	\$	\$	\$ 234
293,309	53,631	188,875	64,233		2,608,452
				304,036	1,050,559
<u>\$ 293,309</u>	<u>\$ 53,631</u>	<u>\$ 188,875</u>	<u>\$ 64,233</u>	<u>\$ 304,036</u>	<u>\$ 3,659,245</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Local Government Economic Assistance Fund	State Grant Fund	Wright House Fund	Phase I Fund
REVENUES				
Intergovernmental	\$ 84,061	\$ 421,198	\$	\$ 508,350
Miscellaneous			4,750	
Interest	1,294		6	5,787
Total Revenues	<u>85,355</u>	<u>421,198</u>	<u>4,756</u>	<u>514,137</u>
EXPENDITURES				
General Government			65	
Protection to Persons and Property	34,459			
General Health and Sanitation		421,198		
Social Services				
Debt Service				
Capital Projects	60,000			
Administration				479,855
Total Expenditures	<u>94,459</u>	<u>421,198</u>	<u>65</u>	<u>479,855</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(9,104)</u>		<u>4,691</u>	<u>34,282</u>
OTHER FINANCING SOURCES (USES)				
Transfer in From AOC				
Transfer to Fiscal Court				
Transfers From Principal Accounts				
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	(9,104)		4,691	34,282
Fund Balances - Beginning	110,910			185,652
Fund Balances - Ending	<u>\$ 101,806</u>	<u>\$ 0</u>	<u>\$ 4,691</u>	<u>\$ 219,934</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005
(Continued)

Health and Welfare Fund	Educational Trust Checking Fund	E.M. Costello Fund	Garth Fund	Thomas Costello Fund	Hamilton Fund
\$	\$	\$	\$	\$	\$
		2,051			
185	1,260	2,248	7,670	425	850
185	1,260	4,299	7,670	425	850
1,508	175,912	92	187	121	148
1,508	175,912	92	187	121	148
(1,323)	(174,652)	4,207	7,483	304	702
		(2,220)	(7,632)	(398)	(823)
	142,988				
	142,988	(2,220)	(7,632)	(398)	(823)
(1,323)	(31,664)	1,987	(149)	(94)	(121)
16,312	437,001	39,048	122,795	5,641	11,276
\$ 14,989	\$ 405,337	\$ 41,035	\$ 122,646	\$ 5,547	\$ 11,155

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005
(Continued)

	Robert Meter Fund	Lucy Anderson Fund	Harrell - Kennedy Fund	Elaine Hinkle Fund
REVENUES				
Intergovernmental	\$	\$	\$	\$
Miscellaneous				
Interest	23,576	14,598	1,174	958
Total Revenues	23,576	14,598	1,174	958
EXPENDITURES				
General Government				
Protection to Persons and Property				
General Health and Sanitation				
Social Services	28,190	3,858	400	200
Debt Service				
Capital Projects				
Administration				
Total Expenditures	28,190	3,858	400	200
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(4,614)	10,740	774	758
OTHER FINANCING SOURCES (USES)				
Transfer in From AOC				
Transfer to Fiscal Court		(12,373)	(853)	(295)
Transfers From Principal Accounts				
Total Other Financing Sources (Uses)		(12,373)	(853)	(295)
Net Change in Fund Balances	(4,614)	(1,633)	(79)	463
Fund Balances - Beginning	704,977	411,010	33,421	24,174
Fund Balances - Ending	\$ 700,363	\$ 409,377	\$ 33,342	\$ 24,637

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005
(Continued)

Lou Redmon Fund	Howard Forquer Fund	May Goff Fund	Talbott Clay Fund	Frances Champ Fund	FM Gillespie Fund	Ella Davis Fund
\$	\$	\$	\$	\$	\$	\$
					5,000	
1,124	17,979	2,531	9,326	4,158	5,959	1,690
1,124	17,979	2,531	9,326	4,158	10,959	1,690
430	3,411	424	4,174	204	6,065	2,272
430	3,411	424	4,174	204	6,065	2,272
694	14,568	2,107	5,152	3,954	4,894	(582)
(691)	(14,965)	(2,050)	(6,704)	(4,115)	(16,593)	
(691)	(14,965)	(2,050)	(6,704)	(4,115)	(16,593)	
3	(397)	57	(1,552)	(161)	(11,699)	(582)
34,002	565,630	61,007	294,861	53,792	200,574	64,815
\$ 34,005	\$ 565,233	\$ 61,064	\$ 293,309	\$ 53,631	\$ 188,875	\$ 64,233

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005
(Continued)

	Bond Proceeds Fund	Total Non-Major Governmental Funds
REVENUES		
Intergovernmental	\$	\$ 1,013,609
Miscellaneous		11,801
Interest	5,122	107,920
Total Revenues	5,122	1,133,330
EXPENDITURES		
General Government	28,604	28,669
Protection to Persons and Property		34,459
General Health and Sanitation		421,198
Social Services		227,596
Debt Service	381,574	381,574
Capital Projects		60,000
Administration		479,855
Total Expenditures	410,178	1,633,351
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(405,056)	(500,021)
OTHER FINANCING SOURCES (USES)		
Transfer in From AOC	381,574	381,574
Transfer to Fiscal Court		(69,712)
Transfers From Principal Accounts		142,988
Total Other Financing Sources (Uses)	381,574	454,850
Net Change in Fund Balances	(23,482)	(45,171)
Fund Balances - Beginning	327,518	3,704,416
Fund Balances - Ending	\$ 304,036	\$ 3,659,245

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2005

**BOURBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Bourbon County, Kentucky.
2. No reportable conditions are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Bourbon County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Bourbon County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Bourbon County.
7. The programs tested as major programs were: Community Development Block Grant – Rural Water Extension and Highway Planning and Construction – Duncan Tavern Phase III. The threshold for distinguishing Type A and B programs was \$300,000.
8. Bourbon County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

Prior Year Findings and Questioned Costs - Major Federal Awards Program Audit

Fiscal Court Should Implement Procedures To Ensure Compliance With The Davis-Bacon Act - This comment has been corrected.

THIS PAGE LEFT BLANK INTENTIONALLY

BOURBON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

For The Year Ended June 30, 2005

BOURBON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2005

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	Pass-Through <u>Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs:		
 <u>U.S. Department of Housing and Urban Development</u>		
Passed Through State - Governor's Office for Local Government:		
Community Development Block Grants - Rural Water Extension (CFDA # 14.228)	Not Available	\$ 262,522
 <u>U.S. Department of Justice</u>		
Passed Through State - Justice Cabinet:		
Violence Against Women Grant (CFDA # 16.588)	Not Available	28,952
 <u>U.S. Department of Transportation</u>		
Passed Through State - Transportation Cabinet:		
Highway Planning and Construction - Duncan Tavern Grant Phase III Wright House (CFDA # 20.205)	Not Available 0272091	88,100 <u>52</u>
Total U.S. Department of Transportation		<u>88,152</u>
 <u>U.S. Department of Agriculture</u>		
Passed Through State Department for Rural Development:		
Rural Business Enterprise Grant - Farmer's Market (CFDA # 10.769)	Not Available	45,321

BOURBON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
Fiscal Year Ended June 30, 2005
(Continued)

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
 <u>U.S. Department of Homeland Security</u>		
Passed Through State - Department of Military Affairs:		
General Equipment Grant I	Not Available	\$ 15,063
General Equipment Grant II (CFDA # 97.004)	Not Available	59,853
Coordinator Salary (CFDA # 97.042)	Not Available	8,572
Public Assistance Grant (CFDA # 97.036)	Not Available	63,585
50/50 Siren Grant - Pre-Disaster Mitigation (CFDA # 97.047)	Not Available	12,811
Total U.S. Department of Homeland Security		<u>159,884</u>
Total Expenditures of Federal Awards		<u>\$ 584,831</u>

BOURBON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
Fiscal Year Ended June 30, 2005

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Bourbon County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie Foley, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

**Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bourbon County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 25, 2006. Bourbon County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bourbon County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Bourbon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting
And On Compliance and Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of Bourbon County Fiscal Court, management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 25, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie Foley, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Bourbon County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Bourbon County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bourbon County's management. Our responsibility is to express an opinion on Bourbon County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bourbon County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Bourbon County's compliance with those requirements.

In our opinion, Bourbon County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Bourbon County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bourbon County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 25, 2006


**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

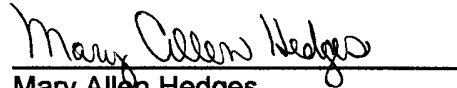
BOURBON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BOURBON COUNTY FISCAL COURT
For The Fiscal Year Ended June 30, 2004

The Bourbon County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Donnie Foley
County Judge/Executive


Mary Allen Hedges
County Treasurer